

Message Text

PAGE 01 STATE 125400

15

ORIGIN TRSE-00

INFO OCT-01 EUR-12 ISO-00 AID-05 CEA-01 CIAE-00 COME-00

EB-07 EA-06 FRB-03 INR-07 IO-10 NEA-10 NSAE-00

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 L-03 H-02 /103 R

TX-387

DRAFTED BY TREAS:WLMCCAMEY:RL

APPROVED BY EB/IFD/OMA:RJRYAN

FRB:RSOLOMON

STATE:WCLARK

TREAS:JFBENNETT

----- 118254

R 292321Z MAY 75

FM SECSTATE WASHDC

TO ALL OECD CAPITALS

USMISSION OECD PARIS

USMISSION EC BRUSSELS

C O N F I D E N T I A L STATE 125400

E.O. 11652: GDS

TAGS: EFIN, OECD

SUBJECT: WP-3 MEETING, MAY 14-15, 1975

1. SUMMARY: AT ITS MEETING IN PARIS MAY 14-15, 1975, WORK-
ING PARTY 3 POSTPONED PLANNED DISCUSSION OF BALANCE-OF-
PAYMENTS AIMS AND FOCUSED ON PROGRESS OF THE ADJUSTMENT
PROCESS ON CURRENT ACCOUNT AND EXCHANGE RATES, CAPITAL
MOVEMENTS AND THE FINANCING OF DEFICITS, WITH SOME DIS-
CONFIDENTIAL

PAGE 02 STATE 125400

CUSSION OF THE EXTERNAL FINANCIAL POSITION OF NON-OIL
DEVELOPING COUNTRIES. WORKING PARTY DISCUSSED MARKEDLY
IMPROVED POSITION OF MAJOR OECD COUNTRIES, TAKING INTO
ACCOUNT EXPECTED PICKUP OF ECONOMIC ACTIVITY AND IMPORTS IN
THE SECOND HALF. WITH DEFICITS OF OTHER OECD COUNTRIES
LARGE BUT STABLE CURRENT ACCOUNT DEFICIT OF OECD AS A WHOLE
EXPECTED TO FALL TO DOLS. 19-24 BILLION IN 1975, AS COMPARED
WITH DOLS 34 BILLION LAST YEAR. GIVEN THE EXPECTED DETERI-
ORATION OF THE POSITION OF NON-OIL LDC'S OF DOLS. 6-7

BILLION, OPEC SURPLUS WOULD PROBABLY DECLINE FROM DOLS. 60 BILLION LAST YEAR TO UNDER DOLS. 50 BILLION THIS YEAR, OR PERHAPS LOWER. DISCUSSION OF EXCHANGE RATES REVEALED GENERALLY RELAXED AND CONFIDENT ATTITUDE, INCLUDING TOWARD DOLLAR, EXCEPT FOR FRANCE, WHICH DEMONSTRATED CONSIDERABLE CONCERN ABOUT THE 25 CENT FRANC. THERE WAS DEEP CONCERN ABOUT U.K. SITUATION, BUT THERE WAS ALSO RECOGNITION THAT U.K. HAD PARTICIPATED IN CURRENT ACCOUNT IMPROVEMENT OF WP-3 COUNTRIES. PARTICULAR IMPORTANCE ATTACHED TO CONTROL OF INFLATION IN U.K., WHICH WORKING PARTY, LIKE U.K. AUTHORITIES, RECOGNIZED WAS VERY MUCH A DOMESTIC U.K. PROBLEM NOW. WORKING PARTY AGREED TO HOLD NEXT MEETING IN WASHINGTON SEPTEMBER 5, 1975, AT TIME IMF/IBRD ANNUAL MEETINGS. END SUMMARY

2. A COMPILATION OF NATIONAL FORECASTS AT WORKING PARTY MEETING PLACED THE PROSPECTIVE OECD CURRENT ACCOUNT DEFICIT FOR 1975 AT AROUND DOLS. 24 BILLION, AS COMPARED WITH THE OECD SECRETARIAT TOTAL OF DOLS. 19-20 BILLION. THE MAIN DIFFERENCE BETWEEN COUNTRIES' VIEWS AND SECRETARIAT VIEWS WAS FOR THE U.S., WHICH HAD PROJECTED ITS CURRENT ACCOUNT POSITION IN 1975 AS LYING IN A RANGE OF PLUS OR MINUS DOLS. 1 BILLION, WHILE THE SECRETARIAT PROJECTED A SURPLUS OF DOLS. 3 BILLION.

3. SHARP FIRST QUARTER IMPROVEMENT OF CURRENT ACCOUNT OF MANY WP-3 COUNTRIES WAS SEEN AS MAINLY DUE TO VERY SHARP DECREASE IN IMPORTS, THIS IN TURN BEING ATTRIBUTED IN PART TO LOWER OIL IMPORTS, BOTH IN TERMS OF VOLUME AND PRICE. THUS THE COUNTERPART OF THESE OECD COUNTRIES' IMPROVEMENT IN SOME MEASURE WAS A CONSIDERABLY LOWER OPEC SURPLUS, REFLECTING ALSO PROBABLY HIGHER EXPORTS TO OPEC. IT ALSO CONFIDENTIAL

PAGE 03 STATE 125400

SEEMED LIKELY THAT THE OECD COUNTRIES WILL HAVE A LARGE SURPLUS VIS-A-VIS NON-OIL LDC'S, WHOSE FINANCING CAPACITY HAS PROVED STRONGER THAN ANTICIPATED. HOWEVER, IT WAS ANTICIPATED THAT THIS CAPACITY WILL WEAKEN AND OVER THE YEAR AS A WHOLE NON-OIL LDC IMPORT VOLUMES WILL BE LOWER.

4. EXPECTATIONS OF A REBOUND IN WP-3 IMPORTS IN THE SECOND HALF OF 1975 WERE CONFIRMED, BROADLY SPEAKING, FOR THE MAJOR COUNTRIES, AND FOR THOSE COUNTRIES (U.S., GERMANY, JAPAN) EXPECTED TO LEAD WAY OUT OF CURRENT RECESSION. IN THE CASE OF JAPAN, HOWEVER, THERE WERE QUESTIONS WHETHER MEASURES TAKEN TO DATE WOULD LEAD TO ACHIEVEMENT OF PROJECTIONS. THE WORKING PARTY DID NOT AGREE WITH THE SECRETARIAT THAT THE REBOUND IN IMPORTS WOULD BEGIN IN THE SECOND QUARTER OF 1975, BUT DID AGREE THAT A REBOUND IN THE SECOND HALF COULD BE EXPECTED, REASONING THAT THE SHORTFALL IN DOMESTIC DEMAND HAD BEEN WIDELY ASSOCIATED WITH REDUCTIONS IN INVENTORIES WHICH EITHER HAD ENDED OR WOULD BE

ENDING SHORTLY. THIS LED TO EXPECTATIONS THAT CURRENT ACCOUNT DEFICIT OF WP-3 COUNTRIES WOULD BE HIGHER IN THE SECOND HALF OF THIS YEAR THAN IN THE FIRST, ALTHOUGH STILL BELOW LAST YEAR AND RECENT FORECASTS.

5. CHAIRMAN EMMINGER BELIEVED THAT THERE WAS EVIDENCE OF SOMEWHAT BETTER PATTERN OF ADJUSTMENT AMONG WP-3 COUNTRIES, REFERRING TO PROSPECT THAT SOME KEY DEFICITS (U.K., ITALY)

WOULD BE LESS THAN HALF LAST YEAR'S, NOTING THAT THE ENLARGED CANADIAN DEFICIT COULD NOT BE CONSIDERED A SERIOUS PROBLEM, AND MAINTAINING THAT GERMAN SURPLUS WAS NOT ONLY DECLINING BUT ITS COMPOSITION WAS IMPROVING (DETERIORATING AGAINST KEY INDUSTRIAL COUNTRIES AND IMPROVING VIS-A-VIS OPEC). U.S. (SOLOMON) AND MARRIS (SECT) CHALLENGED THIS, HOWEVER, WITH LATTER EXPRESSING BOTH A CONVICTION THAT ON A CYCLICALLY ADJUSTED BASIS THE SITUATION WAS GETTING WORSE NOT BETTER AND CONCERN THAT IT WAS WEAK COUNTRIES WHICH WERE INFLATING MOST RAPIDLY WHILE THE STRONG COUNTRIES WERE HAVING SUCCESS IN CONTROLLING INFLATION. HE WAS IN PARTICULAR CONCERNED ABOUT HOW FAR THE GERMAN SITUATION WOULD HAVE TO TURN AROUND FROM A PRESENT SURPLUS TO BE WHERE IT OUGHT TO BE.

CONFIDENTIAL

PAGE 04 STATE 125400

6. WORKING PARTY CONCLUDED THAT THERE WERE NO IMMEDIATE FINANCING DIFFICULTIES TO BE ANTICIPATED AMONG MEMBERS, ALTHOUGH IT RECOGNIZED THAT IT HAD NOT GONE INTO THE U.K. SITUATION IN DETAIL. IT WAS NOTED THAT THE U.K. CURRENT ACCOUNT DEFICIT, ALTHOUGH THE HIGHEST OF THE WP-3 COUNTRIES, WOULD BE HALF OF LAST YEAR'S, AND IT REMAINED TO BE SEEN WHETHER IT WOULD BE A PROBLEM.

7. MARRIS OBSERVED THAT DOLS. 17-1/2 BILLION DEFICIT OF OTHER OECD COUNTRIES REPRESENTED A DEFICIT OF 4-4-1/2 PERCENT OF THEIR GNP. HE OBSERVED THAT THESE COUNTRIES DID FINANCE A DOLS. 15 BILLION DEFICIT LAST YEAR WITH ONLY A DOLS. 3 BILLION DRAWDOWN IN RESERVES. WHILE HE THOUGHT THE VAST MAJORITY OF THESE COUNTRIES SHOULD BE ABLE TO FINANCE THEIR DEFICITS THIS YEAR, PERHAPS WITH GREATER USE OF INTERNATIONAL LENDING FACILITIES, HE FEARED THE PROBLEM WAS NOT SHORT-TERM, AND THE REAL QUESTIONS WERE WHAT HAPPENED BEYOND 1975. HE MENTIONED TURKEY, ICELAND AND GREECE AS IN THE MOST DIFFICULT SITUATION, AND CHARACTERIZED NEW ZEALAND, FINLAND AND DENMARK AS ALSO EXPOSED. DENMARK DISAGREED WITH THE SECRETARIAT FORECAST, BELIEVING THAT ITS CURRENT ACCOUNT DEFICIT WOULD BE HALVED THIS YEAR. SWEDEN EMPHASIZED IMPORTANCE OF EXPANSION BY BIGGER COUNTRIES AS SOLUTION TO PROBLEMS OF SMALLER OECD COUNTRIES. FAY SUGGESTED THAT THE SITUATION IN THESE COUNTRIES SHOULD BE KEPT UNDER REVIEW AND SUGGESTED THAT THE TEMPORARY WORKING PARTY OF THE EPC MIGHT BE THE APPRO-

PRIATE BODY. WORKING PARTY CONCLUDED DESPITE FACT THAT OTHER OECD COUNTRIES AS A GROUP HAD NOT PARTICIPATED IN THE GENERAL CURRENT ACCOUNT IMPROVEMENT OF THE WP-3 COUNTRIES, UP TO NOW THERE HAD BEEN NO FINANCING PROBLEMS FOR THESE COUNTRIES, AND MANY WOULD CONTINUE TO FIND THE FINANCING PROBLEM MANAGEABLE. HOWEVER, FOR SOME A MORE CRITICAL PROBLEM MIGHT ARISE IF DEFICITS CONTINUED.

8. BOTH OECD SECRETARIAT AND IMF STAFF ESTIMATES OF PROJECTED CURRENT ACCOUNT DEFICITS OF NON-OIL LDC'S WERE CLOSE, SHOWING A SLOWLY INCREASING DEFICIT. THESE COUNTRIES' FINANCING PROBLEMS HAD BEEN MANAGEABLE LAST YEAR, BUT THERE WOULD BE MORE FINANCING PROBLEMS IN 1975, DIFFER-
CONFIDENTIAL

PAGE 05 STATE 125400

ING FROM COUNTRY TO COUNTRY, BUT PARTICULARLY DIFFICULT FOR SOME, MAINLY THE MSA'S.

9. IN DISCUSSING U.S. SITUATION, U.S. REP (BENNETT) NOTED TENDENCY OF CERTAIN COUNTRIES TO BE EURO-CENTRIC IN EXCHANGE RATE MATTERS FOCUSING ON THEIR RATES WITH THE DOLLAR. TRACING TRADE WEIGHTED MOVEMENT OF DOLLAR VIS-A-VIS CURRENCIES OF MAJOR TRADING PARTNERS, BENNETT OBSERVED THAT DOLLAR RECENTLY ONLY MINUTELY BELOW LEVELS OF FEBRUARY, 1973, JUST PRIOR TO COMMENCEMENT OF GENERALIZED FLOATING AND CONSIDERABLY STRONGER NOW THAN IN FEBRUARY OF THIS YEAR. HE NOTED THAT IMPORTANT FACTOR IN SLIGHT DECLINE OF DOLLAR IN RECENT DAYS PROBABLY WAS SHARP DROP IN U.S. TREASURY OIL RATES, DUE TO REDUCED ESTIMATES OF TREASURY BORROWING REQUIREMENTS. BENNETT SAID BIG FACTOR IN STRENGTH OF U.S. CURRENT ACCOUNT IN FIRST MONTHS 1975 WAS REDUCED IMPORTS OF OIL, AND OBSERVED THAT MANY COUNTRIES SEEM TO HAVE BEEN RUNNING DOWN OIL INVENTORIES GAMBLING THAT OIL PRICES WILL NOT GO UP BEFORE LATE THIS YEAR. HE ESTIMATED U.S. CURRENT ACCOUNT DEFICIT FOR YEAR 1975 AT PLUS OR MINUS DOLS.1 BILLION (AS COMPARED SECRETARIAT DOLS. 3 BILLION SURPLUS PROJECTION). HE OBSERVED THAT OPEC INVESTMENTS IN THE U.S. IN THE FIRST FOUR MONTHS OF THIS YEAR TOTALLED ABOUT DOLS. 2 BILLION, OR ABOUT HALF THE RATE OF LAST YEAR. HE NOTED THAT THESE INVESTMENTS WERE AT SOMEWHAT LONGER TERM. MORE GENERALLY, BENNETT OBSERVED THAT NEITHER RECORDED OPEC INVESTMENTS OR CURRENT ACCOUNT DEFICITS OF OIL IMPORTING COUNTRIES SEEMED TO BE OF THE MAGNITUDE OF ESTIMATED OPEC ACCUMULATIONS, WHICH SUGGESTED THE LATTER HAD BEEN EXTENDING EXPORT CREDIT. HE WAS NOW THINKING THAT THE OPEC SURPLUS, EXCLUDING EXPORT CREDIT, THIS YEAR WOULD BE LESS THAN DOLS 50 BILLION. SOLOMON NOTED THAT THE CONSENSUS FORECAST IN THE U.S. WAS THAT THE ECONOMY WOULD BOTTOM OUT SOON WITH MORE UNCERTAINTY SURROUNDING THE RATE OF EXPANSION OVER THE NEXT YEAR. ALTHOUGH HOLDING OUT THE PROSPECTS OF A SOMEWHAT MORE RAPID RECOVERY IN THE U.S. THAN THE SECRETARIAT FORESAW, HE DID

NOT QUARREL WITH SECRETARIAT FORECASTS. HE ALSO OBSERVED THAT APART FROM THE DIP IN TREASURY BILL RATES, SHORT-TERM RATES IN THE U.S. HAD GENERALLY LEVELLED OFF. BENNETT SAID U.S. WAS STILL CONCERNED ABOUT CROWDING OUT IN U.S.
CONFIDENTIAL

PAGE 06 STATE 125400

FINANCIAL MARKETS.

10. JAPAN (YOSHIDA) SAID THE JAPANESE ECONOMY HAD HIT BOTTOM IN MARCH, AND THAT JAPAN WAS NOW IN A POSITION TO TAKE REFLATIONARY STEPS, BUT NOT ON THE FISCAL SIDE, FUJIMOTO (BOJ) OBSERVED THAT THE PRICE INCREASES ARISING FROM THE RISE IN OIL PRICE INCREASES WERE NOW UNDER CONTROL, AND SETTLEMENTS NOW COMPLETED IN THE WAGE NEGOTIATIONS WERE AROUND 12-13 PERCENT, AS COMPARED WITH 32 PERCENT A YEAR AGO. HE DREW ATTENTION TO THE RECENT DISCOUNT RATE DECREASE BUT SAID THE JAPANESE AUTHORITIES WERE CONCERNED TO SEE A LITTLE MORE EVIDENCE OF PRICE STABILITY, AND WOULD BE TAKING A CAUTIOUS MONETARY COURSE FOR THE PRESENT. IN REPLY TO QUESTIONS FUJIMOTO STATED THAT SOME PRICE INCREASES WERE DUE TO A SQUEEZE ON PROFITS OF JAPANESE INDUSTRY. AT THE INSTIGATION OF THE U.K. AND THE SECRETARIAT, THE CHAIRMAN ASKED THE JAPANESE DELEGATION TO REPORT TO THEIR AUTHORITIES DOUBTS EXPRESSED IN THE WORKING PARTY THAT PRESENT MEASURES ADAPTED WOULD BE ADEQUATE TO ASSURE ACHIEVEMENT OF GROWTH OBJECTIVES SHARED BY BOTH JAPAN AND THE SECRETARIAT.

11. FRENCH PROJECTIONS OF THEIR CURRENT ACCOUNT FOR 1975 CALLED FOR A REDUCTION IN THE DEFICIT FROM 28 BILLION FRANCS IN 1974 TO 18 BILLION FRANCS THIS YEAR, WHICH COMPARED WITH A SECRETARIAT PROJECTION THAT THE DEFICIT WOULD BE HALVED. THE MAIN REASON FOR THE DIFFERENCE WAS THAT THE FRENCH EXPECTED A STRONGER UPTURN IN ECONOMIC ACTIVITY AND HIGHER IMPORTS THAN THE SECRETARIAT. U.S. (BENNETT) OBSERVED THAT FRANC HAD BEEN RISING AGAINST ALL CURRENCIES NOT JUST THE DOLLAR, BUT FRANCE HAD BEEN INTERVENING HEAVILY TO THE EXTENT PERHAPS DOLS. 1-1/2 BILLION THIS YEAR, AND WONDERED AT WHAT POINT THIS COULD BE JUDGED TO BE AN INAPPROPRIATE ATTEMPT TO PREVENT AN EVEN LARGER INCREASE IN THE MARKET VALUE OF THE FRANC. FRANCE (DELAROSIERE) MAINTAINED THAT FRANCE HAD NOT BORROWED ABROAD INAPPROPRIATELY, ALTHOUGH CONCEDING SOME INTERVENTION IN RECENT WEEKS TO SUPPORT THE DOLLAR. HE EXPRESSED CONCERN OVER EROSION OF DOLLAR AND INVITED THEWORKING PARTY TO CONSIDER WHAT SHOULD BE DONE. BENNETT OBSERVED THAT COMPETITIVE DEPRECIATION COULD TAKE THE FORM OF FAILING TO ALLOW AN EXCHANGE
CONFIDENTIAL

PAGE 07 STATE 125400

RATE TO APPRECIATE AS WELL AS CAUSING IT TO DEPRECIATE.

DELAROSIERE REPLIED THAT FRANCE HAD NOT STOCKED RESERVES FOR PLEASURE OF HAVING THEM, AND MAINTAINED POLICY OF NON-INTERVENTION WAS NOT A POLICY.

12. GERMANY (POEHL) SAW NO SPECTACULAR SIGNS OF RECOVERY IN GERMANY, BUT THOUGHT THERE WAS A GOOD BASIS FOR RECOVERY IN THE COURSE OF THE YEAR, WITH WAGE SETTLEMENTS MOODERATE AT 6-7 PERCENT, CONSUMER PRICE INCREASES RUNNING AT 4-1/2 PERCENT INVENTORIES DOWN, INTEREST RATES BELOW OTHER MAJOR COUNTRIES EXCEPT SWITZERLAND, AND FISCAL POLICY EXPANSIVE IN A TEXT BOOK FASHION. HE SAID GERMANY DID NOT WANT AN EXPORT LED RECOVERY, AND THOUGHT THE LARGE BUDGET DEFICITS WOULD ENSURE THIS. HE THOUGHT THE GERMAN CURRENT ACCOUNT SURPLUS WOULD DECLINE TO DOLS. 8 BILLION IN 1975, AS COMPARED WITH THE SECRETARIAT'S REVISED DOLS. 9-1/2 BILLION FIGURE. HE POINTED PARTICULARLY TO THE WEAKENING OF THE GERMAN TRADING ACCOUNTS WITH CERTAIN INDUSTRIAL COUNTRIES SUCH AS ITALY, FRANCE AND JAPAN.

13. EMMINGER OPENED DISCUSSION OF EXCHANGE RATES AND CAPITAL MOVEMENTS, BY OBSERVING THAT THE NOTION OF CONTINUED WEAKNESS OF THE DOLLAR SEEMS TO HAVE DISAPPEARED. U.S. (BENNETT) THOUGHT THE OUTLOOK FOR THE DOLLAR WOULD BE MORE POSITIVE OVER THE LONGER TERM. TAX REVENUES WERE HIGHER THAN HAD BEEN EXPECTED, AND THERE WERE INDICATIONS THAT THE CONGRESS WAS MOVING TOWARD A MORE RESPONSIBLE ATTITUDE ON BUDGET EXPENDITURES. HE ALSO WOULD ANTICIPATE FURTHER PROGRESS ON CONSUMER PRICES. INTEREST RATE DIFFERENTIALS HAVE GENERALLY NARROWED, AND OVER LONGER RUN THE COMBINATION OF BUDGET DEFICITS AND RECOVERY SHOULD AGAIN PUT UPWARD PRESSURE ON INTEREST RATES. IN SUM, MR. BENNETT WAS RATHER INCLINED TO SEE FURTHER STRENGTHENING OF THE DOLLAR OVER TIME BUT RECOGNIZED THAT IN SHORT TERM DECLINE IN U.S. INTEREST RATES WEAKEN DOLLAR.

-----POSSIBLE

14. ASKED BY EMMINGER REGARDING U.S. VIEWS REGARDING USE OF THE SDR AS A REFERENCE FOR OIL PRICING, BENNETT SAID ON THE ONE HAND, HE COULD UNDERSTAND, IN THAT OPEC BUYS ITS IMPORTS FROM A NUMBER OF COUNTRIES. ON THE OTHER HAND, AS BANKERS WE WELCOME THE USE OF OUR SERVICES. THE OPEC CONFIDENTIAL

PAGE 08 STATE 125400

COUNTRIES HAD TRIED ON A BASKET OF CURRENCIES A FEW YEARS AGO BUT ABANDONED THE PRACTICE AND RETURNED TO USE OF THE DOLLAR.

15. EMMINGER SUMMED UP BY FINDING SOME UNDERLYING FACTORS WHICH SUPPORT A MILDLY OPTIMISTIC VIEW ABOUT THE DOLLAR. TRADE PICTURE OF U.S. HAS STRENGTHENED SIGNIFICANTLY. ANTI-INFLATIONARY RECORD HAD IMPROVED TO SURPRISING DEGREE. VERY SHORT-TERM MOVEMENTS INTEREST RATE RELATIONSHIPS WERE A DEPRESSING INFLUENCE, BUT THE MEDIUM TERM OUTLOOK POINT-

ED TO A STRENGTHENING INFLUENCE OF THE DOLLAR, DUE TO FIRMING U.S. RATES IN THE U.S. IN THE SECOND HALF OF 1975, WHILE RATES IN EUROPE WOULD PROBABLY BE MOVING DOWNWARD. HE CAUTIONED, HOWEVER, THAT TEMPORARY FACTORS COULD DISTORT THE PICTURE, RECALLING THAT PETRODOLLAR MOVEMENTS INTO THE U.S. HAD THIS YEAR BEEN AT DIMINISHED RATES. HE OBSERVED ALSO THAT THE TRADE WEIGHTED FLUCTUATION OF THE DOLLAR OVER THE PAST YEAR HAD BEEN WITHIN A RANGE OF PLUS OR MINUS 2-1/2 PERCENT, LESS THAN THAT SUGGESTED IN THE IMF FOR SOME PARITY SYSTEMS.

16. SWITZERLAND (HAY) INDICATED THAT THE SWISS FRANC SITUATION HAD IMPROVED SINCE THE LAST MEETING OF THE WORKING PARTY, AND TERMED THE PRESENT SITUATION RELATIVELY SATISFACTORY, DESPITE PROBLEMS FOR SOME SECTORS. HE EXPRESSED PARTICULAR CONCERN ABOUT LARGE DAY-TO-DAY FLUCTUATIONS OF EXCHANGE RATES. HE THOUGHT A RELATIVELY STABLE RATE OF SWFR 2.60/DOLS. 1 WOULD BE SATISFACTORY IF IT DID NOT SOLVE ALL PROBLEMS, BUT DID NOT BELIEVE THE FRANC COULD GO BACK TO 2.80/US DOLS. 1. HE NOTED THAT THE SWFR/DM RATE HAD BEEN RELATIVELY STABLE. ON OPEC DIVERSIFICATION, HAY REPORTED THAT THE SWISS HAD TALKED TO THE SAUDI ARABIANS AND THAT THE LATTER HAD ASSURED THE SWISS THAT THERE WOULD BE NO TRANSFERS INTO SWISS FRANCS WITHOUT

CONSULTATION. HE INDICATED THAT THE SWISS WOULD LIKE TO HAVE A SIMILAR ARRANGEMENT WITH THE KUWAITIS, BUT HAD NOT BEEN ABLE TO ACHIEVE THIS.

17. U.K. (HOPKINS), WHILE OBSERVING THAT IMPROVEMENT OF CONFIDENTIAL

PAGE 09 STATE 125400

U.K. CURRENT ACCOUNT IN FIRST FOUR MONTHS SOMEWHAT GREATER THAN CONSISTENT WITH SECRETARIAT FORECASTS, ACKNOWLEDGED ANXIETIES ABOUT U.K. SITUATION BOTH AT HOME AND ABOARD. HE SAID KEY IN BUDGET WAS REDUCTION IN BUDGET DEFICIT, WHICH WOULD CONTRIBUTE TO INCREASE IN UNEMPLOYMENT TO OVER ONE MILLION NEXT WINTER. HE THOUGHT INFLATION SHOULD PEAK AT MID-YEAR, SUBSEQUENTLY DECLINE, AND MIGHT NOT BE MUCH OVER 1 PERCENT PER MONTH IN THE SECOND HALF OF THIS YEAR. WHILE NOT WANTING TO PAINT COMPLACENT PICTURE, HE BELIEVED BOTH THE BALANCE OF PAYMENTS AND INFLATION WERE IMPROVING. HE SAID THE U.K. WAS DEEPLY CONCERNED BUT NOT IN A STATE OF PANIC AND HOPED OTHERS WOULD NOT PANIC ON THEIR ACCOUNT. MCMAHON (BOE) CONCEDED IT LIKELY THAT THERE WOULD BE FURTHER MARKET PRESSURES ON THE POUND, BUT SAID U.K. AUTHORITIES WERE ALSO CONCERNED ABOUT COST INCREASES ARISING FROM DEPRECIATION OF THE POUND, AND ABOUT EXTERNAL HOLDERS OF STERLING. ASCRIBING 3-1/2 PERCENT TRADE WEIGHTED DECLINE IN POUND RATE IN LAST THREE WEEKS TO TIMES ARTICLE ALLEGING THAT U.K. AUTHORITIES WANTED SUCH A FALL, HE BELIEVED THAT THE DEPRECIATION OF THE POUND HAD NOW

STABILIZED AT 25 PERCENT (SINCE PRE-SMITHSONIAN). ON FOREIGN STERLING HOLDINGS, MCMAHON SAID HE ANTICIPATED THAT THERE WOULD BE FURTHER SHIFTS AT THE MARGIN OF FUNDS OUT OF STERLING, FOR EXAMPLE, OF OIL PAYMENTS MADE IN STERLING, BUT HE DID NOT EXPECT EXISTING STERLING HOLDINGS TO BE CONVERTED INTO OTHER CURRENCIES.

18. FOLLOWING QUESTIONING OF U.K. FOCUSING ON HIGH WAGE SETTLEMENTS AND RELATIVELY EASY STANCE OF U.K. DEMAND MANAGEMENT POLICIES, EMMINGER SUMMED UP BY SAYING THAT WORKING PARTY HAD HEARD SOME ENCOURAGING THINGS REGARDING THE U.K. TRADE AND CURRENT ACCOUNT POSITIONS. NEVERTHELESS, THE PICTURE WAS NOT ROSY, AND DEEP CONCERN HAD BEEN EXPRESSED. HE CONCLUDED THAT, WITH INTERNATIONAL PRICES NOW MORE STABLE, THE U.K. PROBLEM WAS NOW VERY MUCH IN THE HANDS OF THE U.K. THEMSELVES.

19. U.K. (MCMAHON) ALSO REPORTED THAT U.K. ESTIMATES OF FIRST QUARTER OPEC SURPLUS WERE CLOSER TO MORGAN GUARANTY THAN TO THE SECRETARIAT. HE ESTIMATED THAT THE OPEC CASH SURPLUS FOR INVESTMENT DECLINED FROM DOLS. 17.4 BILLION
CONFIDENTIAL

PAGE 10 STATE 125400

IN THE FOURTH QUARTER OF 1974 TO JUST OVER DOLS. 9 BILLION IN THE FIRST QUARTER OF 1975. DOLS. 1.9 BILLION OF THIS DECLINE COULD BE ATTRIBUTED TO AN EXCEPTIONAL POSTPONEMENT BY IRAN. THE LATEST U.K. ESTIMATES FOLLOW (IN DOLLARS BILLION):

	-----1974 IV	1975 I
U.S.	2.6	1.0
U.K.	1.6	1.0
EURO CURRENCY		
--LONDON	3.4	1.7
--ELSEWHERE	2.5	2.5
INTERNATIONAL ORGANIZATION	2.3	1.2
OTHER	5.0	1.8
TOTAL	17.4	9.2

20. CHAIRMAN EMMINGER SUGGESTED THAT BECAUSE OF ABSENCE OF LEADING PROPONENT OF AIMS EXERCISE (MITCHELL, U.K.), LACK OF TIME, AND FACT THAT SOME REPLIES TO MARRIS LETTER EXPECTED BUT NOT YET RECEIVED, DISCUSSIONS OF AIMS SHOULD BE POSTPONED TO NEXT MEETING. FAY (SECT) INVITED DELEGATIONS TO REPLY IN WRITING BEFORE THE NEXT MEETING TO THE QUESTIONS RAISED AT THE END OF THE SECRETARIAT DOCUMENT FOR THE PRESENT MEETING.

21. THE WORKING PARTY AGREED TO HOLD ITS NEXT MEETING IN WASHINGTON ON SEPTEMBER 5 IN CONJUNCTION WITH THE ANNUAL MEETINGS OF THE IMF/IBRD. IT WAS AGREED THAT THE IMF

WOULD MAKE ARRANGEMENTS FOR HANDLING THE MEETING AT THE
SHERATON-PARK HOTEL. INGERSOLL

CONFIDENTIAL

<< END OF DOCUMENT >>

Message Attributes

Automatic Decaptioning: X
Capture Date: 26 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MEETING REPORTS, FOREIGN EXCHANGE RATES, BALANCE OF PAYMENTS, CAPITAL FLOWS
Control Number: n/a
Copy: SINGLE
Draft Date: 29 MAY 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE125400
Document Source: ADS
Document Unique ID: 00
Drafter: TREAS:WLMCCAMEY:RL
Enclosure: n/a
Executive Order: 11652 GDS
Errors: n/a
Film Number: D750189-0507
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t197505104/baaaaaldr.tel
Line Count: 437
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ORIGIN TRSE
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 8
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 17 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <17 APR 2003 by BoyleJA>; APPROVED <06 OCT 2003 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: n/a
TAGS: EFIN, OECD
To: ALL OECD CAPITALS
OECD PARIS
EC BRUSSELS
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006